

Message Text

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ACTION SS-25

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FM AMEMBASSY PANAMA

TO SECSTATE WASHDC PRIORITY 9811

S E C R E T SECTION 1 OF 2 PANAMA 7935

STADIS////////////////////////////////

EXDIS

EO 11652: GDS

TAGS: PN, PFOR, PQ

SUBJECT: THE BOMBINGS AND U.S.-PANAMANIAN RELATIONS

1. IF NATIONAL GUARD INVOLVEMENT IN THE BOMBINGS BECOMES PUBLIC, IT COULD POST A SERIOUS THREAT TO (A) AMERICAN LIVES AND PROPERTY HERE AND (B) ACHIEVEMENT OF A CANAL SOLUTION WHICH PROTECTS U.S. INTERESTS. THE MEBASSY HAS THEREFORE ANALYZED THE POSSIBLE IMPACT OF PUBLIC DISCLOSURE ON U.S.-PANAMANIAN RELATIONS.

2. THE DOMESTIC PANAMANIAN SITUATION IS ALREADY IN A STATE OF CONSIDERABLE FLUX. OF BASIC IMPORTANCE TO THIS SHIFTING PICTURE IS THE COUNTRY'S ECONOMY. PANAMA CONTINUES TO BE IN A RECESSION--AND IN OUR JUDGMENT, IS LIKELY TO STICK THERE FOR MANY MONTHS TO COME. BUSINESS CONFIDENCE IN THE GOVERNMENT IS VERY LOW. MORE TO THE POINT, OPPORTUNITIES FOR PROFITABLE INVESTMENT ARE FEW, AND IT IS DIFFICULT TO SEE WHERE OTHER OPPORTUNITIES WILL COME FROM IN THE NEXT YEAR OR TWO. WORST OF ALL, PUBLIC SECTOR FOREIGN DEBT IS GOING UP WHILE BANKER CONFIDENCE IS DOWN. THE PANAM-ANIAN GOVERNMENT IS HEAVILY RELIANT ON CREDIT. AND SINCE PANAMA'S CURRENCY IS THE U.S. DOLLAR, LOSS OF INTERNATIONAL CREDIT WILL PRECIPITATE NOT JUST A BALANCE OF PAYMENTS CRISIS BUT ALSO A FISCAL CRISIS.

3. WE BELIEVE THAT FAIRLY SOON EITHER OR BOTH OF THE

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FOLLOWING MUST HAPPEN: (A) THE GOVERNMENT TAKES AUSTERITY

MEASURES (INCLUDING HIGHER CONSUMER TAXES, CUTS IN SUBSIDIES, REDUCED PUBLIC INVESTMENT AND CURBS ON LABOR) LEADING TO A LOWER STANDARD OF LIVING; OR (B) IT DOES NOT MEET ITS FINANCIAL COMMITMENTS, SUCH AS POSSIBLE FAILURE TO PAY CONTRACTORS ON TIME, TO MEET THE PUBLIC PAYROLL, OR TO SERVICE ITS PUBLIC DEBT. WE FIND THIS GLOOMY VIEW INCREASINGLY SHARED BY INFORMED PANAMAN- IANS AND FOREIGNERS HERE.

4. PANAMA CAN ESCAPE THIS DILEMMA ONLY IF SOME UNANTI- CIPATED EVENT INTERVENES. THE INTERNATIONAL BANKING COMMUNITY MAY CONTINUE INDEFINITELY TO EXTEND NEW CREDIT IN ADDITION TO RESCHEDULING EXISTING FOREIGN DEBT. THE LIBYANS, VENEZUELAN OR SOME EVEN MORE UNLIKELY SAVIOR MAY UNDERTAKE TO SUBSIDIZE PANAMA. OR UNFORESEEN DEVELOPMENTS MAY CAUSE THE PANAMANIAN ECONOMY TO PICK UP. NONE OF THESE POSSIBILITIES STRIKES US AS VERY LIKELY HOWEVER.

5. LARGELY BECAUSE OF THESE ECONOMIC TROUBLES, THERE ARE MORE AND MORE STRAINS ON THE POLITICAL BASES OF THE GOVERNMENT. A MAJORITY OF THE POLITICALLY ACTIVE STUDENTS ARE DISAFFECTED, SULKING, LICKING THEIR WOUNDS. LABOR -- WEAK BUT FAR FROM HELPLESS -- IS PESSIMISTICALLY WAITING FOR THE CHANGES IN THE LABOR CODE WHICH BUSINESS HAS BEEN TRYING TO WRING OUT OF THE GOVERNMENT. THE COUNTRYSIDE IS AN AREA TORRIJOS COUNTS ON FOR SUPPORT. BUT AGRICULTURE HAS SUFFERED FROM DROUGHT THIS YEAR, AND THE OUTLOOK FOR MOST PANAMANIAN PRODUCTS IS NOT ENCOURAGING.

6. THE NATIONAL GUARD KEEPS TORRIJOS IN POWER. IF HE GOES, IT IS ALMOST SURELY THE GUARD THAT WILL REMOVE HIM. YET WE HAVE NO EVIDENCE THAT ELEMENTS IN THE GUARD ARE THINKING OF OVERTHROWING TORRIJOS. IT APPEARS THAT THE MEMBERS OF THE GUARD'S GENERAL STAFF ARE ONLY BEGINNING TO UNDERSTAND EITHER THE NATURE OR THE GRAVITY OF PANAMA'S ECONOMIC PLIGHT. THEY ARE UNLIKELY TO MOVE AGAINST TORRIJOS UNTIL THE SITUATION HAS WORSENED TO THE POINT THAT HE HIMSELF HAS BECOME A POLITICAL LIABILITY TO THE GUARD. EVEN THEN, IT WOULD NOT BE EASY, AND IT

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WOULD PROBABLY TAKE SOME TIME FOR THE GUARD TO MOVE.

7. WHAT THEN WOULD HAPPEN FOLLOWING PUBLIC REVELATION OF OUR KNOWLEDGE OF NATIONAL GUARD COMPLICITY IN THE ZONE BOMBINGS? THE ANSWER COULD DEPEND ON HOW THE MATTER BECAME PUBLIC. WE HAVE THEREFORE DRAWN UP TWO DIFFERENT SCENARIOS:

A. TORRIJOS GOES PUBLIC HIMSELF. OR ALTERNATIVELY

THE NEWS BREAKS IN THE U.S. AND TORRIJOS THEN BLASTS US.

-- HE WOULD ALMOST CERTAINLY NOT ADMIT ANY PANAMANIAN ROLE, BUT RATHER CLAIM THAT THE U.S. GOVERNMENT HAD FRAMED HIM AND WAS TRYING TO DESTABILIZE HIS GOVERNMENT.

-- MANY PANAMANIAN WOULD BELIEVE HIM; BUT MANY OTHERS, PARTICULARLY THE MORE SOPHISTICATED POLITICALLY, WOULD NOT.

-- INITIALLY, AT LEAST, THERE WOULD BE A LARGE-SCALE ANTI-AMERICAN REACTION.

-- THERE MIGHT BE OFFICIALLY-SANCTIONED MOB ATTACKS ON THE ZONE, THE EMBASSY AND OTHER AMERICAN PROPERTY. THERE WOULD BE REAL DANGER OF A BREAKDOWN OF PUBLIC ORDER AND LOSS OF LIFE.

-- THE PANAMANIAN BUSINESS COMMUNITY WOULD BE APPALLED BUT ITS REACTION WOULD NOT BE IMMEDIATELY CRUCIAL, SINCE THERE IS CURRENTLY LITTLE PLANNED INVESTMENT OR LIQUID CAPITAL WHICH COULD BE TAKEN OUT OF THE COUNTRY.

-- MODERATES IN THE GOVERNMENT WOULD PROBABLY SEEK TO RESIGN.

-- WE CANNOT BE CERTAIN OF THE REACTION OF INTERNATIONAL BANKERS; BUT IN THE DETERIORATING SITUATION DESCRIBED ABOVE, OUR BEST GUESS IS THAT THEY WOULD DRASTICALLY LIMIT PANAMANIAN CREDIT.

THE GUARD'S REACTION TO THIS SCENARIO IS THE MOST DIFFICULT TO PREDICT. THE GUARD'S G-2, NORIEGA, IS OF COURSE AWARE OF THE TRUTH ABOUT THE BOMBINGS. DIAZ HERRERA, THE GUARD'S OTHER PROMINENT LEFTIST-NATIONALIST, KNOWS OF OUR CHARGES AND IS PROBABLY ALSO IN ON THE TRUTH. IT IS UNCLEAR HOW MUCH OTHER MEMBERS OF THE GENERAL STAFF KNOW. THE GUARD'S INITIAL REACTION PROBABLY WOULD BE TO RALLY AROUND TORRIJOS. HOWEVER,
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IF, AFTER THE BREAKING OF THE NEWS, THERE ENSUED A SEVERE FISCAL CRISIS AND A VIOLENT PUBLIC REACTION, THE GUARD WOULD PROBABLY DECIDE THAT TORRIJOS HAD BECOME AN INTOLERABLE BURDEN AND MUST GO. IF IT BECAME CLEAR THAT THE U.S. GOVERNMENT WOULD REFUSE TO NEGOTIATE FURTHER WITH TORRIJOS, THAT WOULD BE AN ADDED REASON TO SACK HIM. THE MOST LIKELY SUCCESSORS OF TORRIJOS ARE COLONELS GARCIA AND PAREDES; AND BOTH WOULD PROBABLY BE AMENABLE TO A RELATIVELY MODERATE LINE VIS-A-VIS THE U.S. AND A SANE ECONOMIC POLICY. WE GIVE NORIEGA A LESSER CHANCE--MAINLY BECAUSE HE IS NOT TRUSTED OR LIKED BY MOST OF HIS COLLEAGUES.

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FM AMEMBASSY PANAMA

TO SECSTATE WASHDC PRIORITY 9812

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B. WORD OF OUR ACCUSATIONS LEAKS OUT AND TORRIJOS EITHER
TEMPORIZES OR TRIES TO PLACATE THE U.S.

-- TORRIJOS COULD ADMIT THE GUARD'S GUILT,
CLAIM NO PERSONAL KNOWLEDGE, AND PUNISH SOME OF THE
PERPETRATORS.

-- HE COULD CONTINUE DENYING BUT TAKE A MODER-
ATE PUBLIC STANCE. THE U.S. GOVERNMENT IS MISTAKEN AND
HE MUST BE THE LONG-SUFFERING VICTIM OF THAT MISTAKE.

-- OR HE COULD SKULK BEHIND THE WALLS OF HIS
SEASIDE HIDEAWAY AT FARALLON, MAKE AN OCCASIONAL
GRUFF BUT INDETERMINATE REMARK AND WAIT TO SEE WHAT
HAPPENS IN THE U.S.

-- NO MATTER WHICH OF THESE (OR OTHER SIMILAR)
COURSES HE MIGHT TAKE, IT WOULD ERODE HIS POLITICAL
SUPPORT IN ONE SECTOR OR ANOTHER.

-- IN ALL LIKELIHOOD, ADOPTION OF THIS TACTIC
WOULD SHIFT THE INITIATIVE TO WASHINGTON--AND TO
NEW YORK. IF THE NEGOTIATIONS WERE RESUMED AND THE
BANKS WERE COOPERATIVE, THEN TORRIJOS WOULD ALMOST
SURELY SURVIVE TO FACE THE NEXT CRISIS.

8. IF TORRIJOS DECIDES NOT TO BREAK THIS THING HIMSELF,
AND IT BECOMES PUBLIC IN WASHINGTON, HE COULD VERY WELL
CHOOSE EITHER SCENARIO A OR B. BUT IF HE SHOULD CHOOSE
B AND THE U.S. GOVERNMENT WERE THEN PUT IN THE POSITION
OF IN EFFECT CHARGING THE NATIONAL GUARD WITH COMPLICITY

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IN THE BOMBINGS (E.G., BY RESPONDING TO PRESS OR CONGRESSIONAL INQUIRIES THAT WE HAVE INFORMATION IMPLICATING THE GUARD), CHANCES OF TORRIJOS STICKING WITH B BECOME VERY SMALL. HE IS LIKELY TO STRIKE OUT AT US.

9. IF TORRIJOS SHOULD BE CUT OFF BY THE INTERNATIONAL BANKS, WHETHER SCENARIO A OR B IS PLAYED OUT, HIS OPTIONS FOR MEETING MINIMAL GOVERNMENT EXPENSES ARE LIMITED. IT SHOULD BE EMPHASIZED THAT, IN ADDITION TO PROJECT CREDITS FROM INTERNATIONAL LENDING INSTITUTIONS, AT LEAST \$100 MILLION ADDITIONAL NET FINANCING PER YEAR WOULD BE NECESSARY FROM OTHER EXTERNAL SOURCES TO SUSTAIN EVEN A REDUCED PUBLIC INVESTMENT PROGRAM. THERE IS THE UNLIKELY POSSIBILITY OF THE SOVIETS PROVIDING SUBSTANTIAL FINANCIAL AID. MANY IN PANAMA BELIEVE THAT THE U.S. WOULD NOT PERMIT THAT. AND ALMOST EVERYONE RECOGNIZES THAT PANAMA'S RELATIVELY HIGH STANDARD OF LIVING COMES FROM SERVICES TO INTERNATIONAL CAPITALISM--TRANSPORTATION, BANKING, THE FREE PORT, IN ADDITION TO THE TOTAL CANAL ZONE ENTITY--ALL OF WHICH WOULD BE MADE PROBLEMATIC BY SOVIET INTERVENTION. A SOMEWHAT BETTER POSSIBILITY WOULD BE THAT VENEZUELA MIGHT COME TO THE RESCUE. THE VENEZUELANS, HOWEVER, ARE NOT FAMED FOR THEIR GENEROSITY. PANAMA HAS FOR SOME TIME BEEN FISHING IN LIBYAN WATERS FOR A LARGE LOAN TO ALLOW RESTRUCTURING OF THE PANAMANIAN DEBT. QADHAFI PERHAPS MORE THAN TORRIJOS IS PRONE TO THE IMPROBABLE. BUT LIBYA WOULD BE CONSIDERED IN PANAMA THE THINNEST OF REEDS, AND RELIANCE ON IT WOULD ONLY DEEPEN THE CRISIS OF THE PRIVATE SECTOR.

10. THE U.S. PUBLIC. THE EMBASSY IS RELUCTANT TO SPECULATE ABOUT POSSIBLE REACTIONS OF THE AMERICAN PUBLIC AND CONGRESS. BUT IT IS IMPOSSIBLE TO COMPLETE THE PICTURE WITHOUT THAT IMPORTANT ELEMENT. IF THIS THING GOES PUBLIC, WE WOULD EXPECT AN OUTCRY NOT JUST FROM TREATY OPPONENTS BUT FROM SOME LIBERALS AND MODERATES WHOSE SUPPORT IS IMPERATIVE TO GET A TREATY APPROVED BY TWO-THIRDS OF THE SENATE AND A MAJORITY OF BOTH HOUSES. WE MAY EVEN BE ADVISED BY OUR FRIENDS IN CONGRESS TO FORGET ABOUT NEGOTIATING WITH A GOVERNMENT WHICH HAS ENGAGED IN TERRORIST ACTS AGAINST THE PROPERTY OF U.S. CITIZENS AND THE U.S. GOVERNMENT
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(A HOSPITAL)--EVEN IF WE SAY TORRIJOS HAS ASSURED US IT WON'T HAPPEN AGAIN.

11. THE U.S. GOVERNMENT POSITION. WE SHOULD REASSESS

THE PREMISE THAT OUR BEST HOPE FOR AN ACCEPTABLE TREATY LIES WITH THE TORRIJOS GOVERNMENT. IF GUARD INVOLVEMENT BECOMES KNOWN, IT MAY BE AN IMPEDIMENT. IT MAY BE EVEN MORE DIFFICULT TO CONCLUDE A TREATY WITH A SUCCESSOR REGIME, BUT WE MAY HAVE NO ALTERNATIVE. I HESITATE TO RECOMMEND ANY SPECIFIC COURSE WITHOUT KNOWING THE EXACT CIRCUMSTANCES UNDER WHICH THIS MIGHT BECOME PUBLIC. BUT THE U.S. GOVERNMENT MUST NOT BEHAVE AS THOUGH TORRIJOS WERE VITAL TO THE PROTECTION OF OUR INTERESTS IN PANAMA. EQUALLY IMPORTANT, WE MUST NOT APPEAR TO BE TRYING TO BRING HIM DOWN. IT WILL REQUIRE A DIFFICULT BALANCING ACT, BUT I BELIEVE THAT THE MIDDLE COURSE IS THE RIGHT ONE.

12. FINALLY, I STRONGLY BELIEVE THAT IT IS IN OUR INTEREST TO COMPLETE THE NEGOTIATIONS AS SOON AS POSSIBLE. I HOPE WE CAN INITIATE AN ACCELERATED PROGRAM WHICH WILL ACHIEVE A TREATY IN THE SPRING. THE OUTLOOK FOR THE NEXT FEW YEARS IS ONE OF WEAK AND PERHAPS UNSTABLE GOVERNMENT IN PANAMA. IF WE DON'T STRIKE FAST FOR A TREATY, OUR BEST CHANCE MAY HAVE PASSED, AND WE WILL FIND OURSELVES DEALING WITH A FRUSTRATED, ANGRY AND INCREASINGLY ANTI-AMERICAN PANAMA. JORDEN

NOTE: MESSAGE UPGRADED TO NODIS PER MR. STEINER, S/S-O

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